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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Economic Growth In Europe Slows

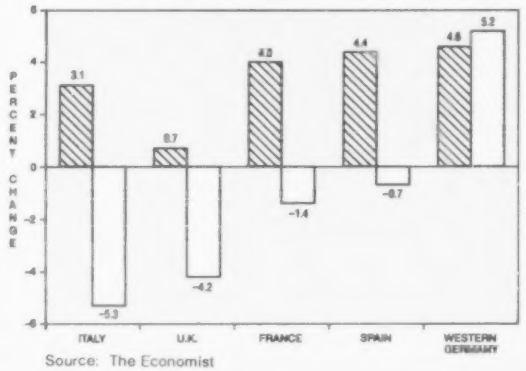
Although the end of the Gulf War has not triggered the same euphoria about economic revival in Europe that it did here in the United States, a feeling of cautious optimism is growing over there that the combination of the end of the war, lower oil prices, declining inflation rates and falling interest rates will set the stage for economic recovery later this year. To be sure, the United Kingdom was already in recession and the economies of such countries as France, Italy and Spain were showing strains from the tough anti-inflation policies imposed by their monetary authorities well before Saddam Hussein invaded Kuwait last August. Still, there can be no doubt that economic activity in most of Europe has slowed considerably since last summer, with industrial output now below year ago levels in many countries (see chart).

Not only did uncertainties about the Gulf War crimp business investment and dampen consumer spending, but the surge in oil prices sent inflation rates, which had been slowing in the first half of last year, spiraling once again. This, in turn, reinforced the governments' commitment to high interest rates, thereby prolonging, if not deepening, the economic slowdown in much of Europe. As a result, economists throughout Europe have significantly lowered their forecasts for this year's economic growth rates from earlier projections.

Mounting evidence that England's industrial sector is in its worst decline since the 1981-82 recession, for example, has prompted widespread expectations that the British economy will contract by around two percent this year, after growing by a meager ½ percent in 1990. In the case of France, a plunge in consumer and business confidence, a sharp slowdown in investment, and shrinking corporate profits caused the government to reduce its 1991 economic growth target from 2¾ percent to 2-2½ percent. However, even this estimate is regarded as too optimistic by most private economists, who see France's economy growing by at most 1½ percent this year.

The Italian government also lowered its forecast of this year's economic growth rate to around 2¼ percent from last September's estimate of 2¾ percent. Private economists are even more pessimistic, projecting that the Italian economy will grow by 1½ percent at best this year, well down from 2½ percent last year and 3¼ percent in 1989. Spain's economy, which was hit especially hard by the Gulf War because of its extreme vulnerability to oil price trends and the importance of tourism, is expected to expand by around 2½ percent this year—barely half its average growth rate over the past four years.

INDUSTRIAL PRODUCTION:
LATEST 12-MONTH PERCENT CHANGE (CLEAR BARS)
VS. ANNUAL PERCENT CHANGE FOR 1989 (SHADED BARS)



Source: The Economist

Recession Is Unlikely

In fact, probably the only European nation that wasn't affected by either high interest rates or the Gulf War is Germany, where economic activity has been far more influenced by the country's reunification. As the other European economies were slowing considerably at the end of last year, hefty demand from the five eastern states caused the western German economy to grow by a real five percent (annualized) in the fourth quarter, its fastest clip since 1976. However, while the German economy is still booming, the government's decision to raise taxes in July to help pay for German unification should slow growth later this year.

For the rest of the Continent, while the end of the war won't produce the robust economic growth rates recorded in the late 1980s, there is a feeling of cautious optimism that, by removing much of the uncertainty that has delayed in-

Manufacturers Hanover Economics Department 17/270

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vestment decisions and dampened consumer spending, the end of the Gulf War will at least prevent the other economies from following the United Kingdom into recession. The stabilization of oil prices at around $20 per barrel should also give a modest boost to economic activity.

Interest Rates Are Coming Down

Far more important to Europe's economic recovery, however, will be the direction of interest rates. The earlier decline in oil prices should allow inflation rates to resume their downward trend, thereby paving the way for an easing of monetary policies. Indeed, the announcement that Spain's year-over-year inflation rate fell below six percent in February for the first time in two years allowed the Bank of Spain to lower its key interest rate by a full percentage point earlier this month. This gave the Bank of France and the Bank of England, who had been constrained by the peseta's strength in the European Monetary System (EMS), room to lower interest rates in their respective countries. What is more, expectations that the U.K. inflation rate will be below five percent by the end of the year, down from a peak of almost eleven percent last October, should allow a substantial cut in U.K. interest rates in the coming months.

The main block to lower Italian interest rates is

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/91)	205,992	- 1,805	- 13,380
New York City (3/13/91)	32,868	- 254	- 7,953
Commercial Paper (3/13/91)	567,853	+ 2,227	+ 26,463

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/91)	320,937	+ 174	- 2,313
New York City (3/13/91)	57,610	- 333	- 960

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/6/91)	1,058,811	- 749	+ 51,997
New York City (3/13/91)	178,073	- 342	- 2,118

Financial Markets

	Friday 3/22/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.04%	+ .09	- 2.09
180-Day Bills†	6.14	+ .07	- 2.10
Longest Bills†	6.33	+ .06	- 1.94
Recent Issues:			
6¾s 2/28/93	7.11	+ .14	
7½s 2/29/96	7.80	+ .08	
7¾s 2/15/01	8.14	+ .05	
7⅞s 2/15/21	8.34	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (3/21/91)	7.13%	+ .07	- .18
Blue List Total ($ Million)	$1,693	+ $ 66	+$ 81
30-Day Visible Supply ($ Million)	$3,903	+ $1,267	+$1,403
Total	$5,596	+ $1,333	+$1,484
Corporates:			
Moody's Aa Composite (3/21/91)	9.23%	+ .07	- .27
30-Day Visible Supply ($ Million)	$ 200	–0–	- $2,194
Stocks:			
Dow-Jones Averages:			
Industrials	2,858.91	- 89.36	+154.63
Transportation	1,072.64	- 26.09	- 98.23
Utilities	213.85	+ 1.39	+ .13
65 Stocks	1,011.64	- 23.47	+ 3.99
N.Y.S.E. Composite Index	201.13	- 2.95	+ 15.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	179,588	- 16,952	+33,755

*34% Taxable equivalent 10.60%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/22/91	Week Ago
Overnight	6.06%	5.94%
1 month	6.31	6.19
3 month	6.31	6.19
6 month	6.44	6.31
1 year	6.88	6.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/22/91)	Currency Per U.S. $	Week Ago
Belgium	33.92	32.70
Canada	1.1578	1.1555
France	5.6060	5.4080
Germany	1.6480	1.5868
Italy	1226.00	1184.80
Japan	137.50	136.20
Mexico	2979.00	2979.80
Netherlands	1.8580	1.7885
South Korea	711.56	711.27
Switzerland	1.4090	1.3740
Taiwan	26.79	26.78
U.K.*	1.7850	1.8469

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/22/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.8%	-1.6%

the country's ballooning budget deficit. But the government is planning to introduce a mini-budget within the next few months, which should bring the 1991 deficit closer to target, thereby allowing the Bank of Italy to ease monetary policy.

Another reason for the optimistic outlook on the interest rate front in Europe is the perception that Bonn's decision to raise taxes in order to help pay for German unification will take some of the pressure off the Bundesbank to tighten monetary policy further. Germany's surging budget deficit was a major reason why the Bundesbank increased interest rates on January 31. Germany's interest rate policy is extremely important because it sets the tone for the other EMS member countries due to the dominant role of the Deutschemark in the exchange rate mechanism. The mark's current weakness is also good news to the other European governments because it gives them more room to maneuver interest rates without fear of downward pressure on their currencies. So while the economies in Europe look pretty gloomy now, prospects are good that the combination of the end of the Gulf War, stable oil prices, and especially, falling interest rates will be able to spark a modest recovery later this year. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/20/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	245.966	- .207	+19.989
Loans to Depository Inst.	.221	+ .073	- 2.007
Float	.300	- .036	- .239
Total Reserve Bank Credit	285.172	+ .092	+16.522
Treasury Deposits with Federal Reserve Banks	4.801	- 1.068	- .200
Currency in Circulation	286.712	- .203	+29.592
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	250.771	- .354	+30.264
	3/20/91		
Member Bank Reserves:			
Total Reserves Held	60.422	+ .833	+ 1.100
Excess (Deficiency)	1.068	- .146	+ .330
Net Free Reserves	.930	+ .092	+ .376
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (3/11/91)	839.6	+ 7.2	+ 4.2
M2 (3/11/91)	3,373.3	+ 4.7	+ 3.2
M3 (3/11/91)	4,173.0	+ 5.3	+ 2.6
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/22/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.87%	5.87%	5.98%
* Federal Agencies	6.20	6.35	6.60
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.35	6.45	6.90

‡ Finance Company Paper–Prime

5- 14 days	5.87%
15- 29 days	6.15
30- 59 days	6.20
60- 89 days	6.20
90-179 days	6.21
180-239 days	6.20
240-270 days	6.20

‡* Bankers' Acceptances

Apr.	6.25%
May	6.23
Jun.	6.20
Jul.	6.18
Aug.	6.18
Sep.	6.18

‡ Industrial Paper–Prime

30- 89 days	6.28%
90-120 days	6.25

†Federal Funds Effective Rate 5.94%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,521	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,150	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.0	1.4	0.3
Change in Consumer Prices*	Feb '91 n	2.4%	4.8%	6.0%
Change in MH Cost of Living Index*	Feb '91 n	7.2%	9.6%	12.0%
Change in Producer Prices*	Feb '91 n	- 7.2%	- 1.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Feb '91	116,918	116,922	118,074
Unemployment as % of Civilian Labor Force †	Feb '91	6.5%	6.2%	5.3%
Personal Income*	Jan '91	$ 4,719	$ 4,741	$ 4,532
Leading Indicators Composite Index (1967=100) †	Jan '91	139.1	139.7	145.4
Industrial Production Index (1977=100) †	Feb '91 n	105.7	106.6r	108.5
Net Change in Consumer Installment Credit †	Jan '91	- $ 2.44	- $ 0.34	$ 1.21
U.S. Merchandise Trade Balance †	Jan '91 n	- $ 7.00	- $ 6.28r	- $ 10.20
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Feb '91 n	989	850	1,459
New Construction Expenditures*	Jan '91	$ 396.6	$ 407.1	$ 446.0
Total Business Inventories †	Jan '91 n	$ 814.4	$ 811.0r	$ 797.2
Total Business Sales †	Jan '91 n	$ 523.6	$ 529.9r	$ 529.0

*Seasonally adjusted annual rate. † Seasonally adjusted.

n-Newly reported figure. r-Revised. a-Anticipated.

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